CAPITAL PLANNING ADVISORY BOARD

Minutes of June 6, 1997

The second meeting of the Capital Planning Advisory Board (CPAB) of the 1997 calendar year was held on Friday, June 6, 1997 at 9:00 AM, in Room 111 of the Capitol Annex. Representative Fred Nesler, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Fred Nesler, Chairman; Bill Hintze, Vice-Chairman; Representative Lawrence Brandstetter; Susan Clary; Bonnie Howell; Paul Isaacs; Sherron Jackson (representing Gary Cox); Lou Karibo; Glenn Mitchell (representing James Codell); Senator Denny Nunnelley; Senator Albert Robinson; Diane Thompson; Laurel True; Judge Anthony Wilhoit.

Guests: Alex Hamilton, Department of Corrections; Bill Stewart and John Witt, Kentucky State Police; Nick Schwendeman, Administrative Office of the Courts; Doug Robinson, Kentucky Information Resources Management Commission; David Bratcher and Lori Flanery, Economic Development Cabinet; Dr. Robert Tarvin, School Facilities Construction Commission; Geoff Pinkerton, Governor's Office for Policy and Management; Commissioner Armond Russ, Department for Facilities Management; Bart Bolin, Cabinet for Health Services; Kim Blitch, Office of Financial Management and Economic Analysis; Kim Burch and Joe Pinczewski-Lee, Legislative Research Commission.

LRC Staff: Pat Ingram, Mary Lynn Collins, and Jonathan Downey.

Chairman Nesler said the first item of business was the election of a chairman and vice-chairman. He opened the floor for nominations for vice-chairman. Ms. Howell nominated Mr. Hintze. Mr. True moved that nominations for vice-chairman cease. The motion was seconded by Mr. Isaacs. Mr. Hintze was elected vice-chairman by acclamation.

Chairman Nesler turned the meeting over to Vice-Chairman Hintze for the election of the chairman. Susan Clary nominated Representative Fred Nesler. There being no further nominations, Representative Nesler was elected by acclamation.

The next item of business was approval of the minutes from the March 13, 1997 meeting. Senator Robinson moved that the minutes be approved as distributed. Mr. Jackson seconded the motion, which passed by voice vote.

Chairman Nesler said there were several information items, and he asked Pat Ingram, Staff Administrator, to report on these items. Ms. Ingram said the first item was an update on the 1996-2002 Capital Planning Process. She said April 15 was the due date for agencies and universities to submit their plans, and plans have been received from cabinets, agencies, and constitutional officers. The Capital Planning Instructions which were approved by the Board also called for any agency which had no projects to submit to provide a letter to the Board stating this fact. She said staff has received several of those letters. Preliminary analysis indicates that 1,376 projects have been submitted. This includes construction, equipment, and information technology equipment items. The total dollar amount for these projects is approximately $4.9 billion. There are also over 150 new or expanded leases covering the six years of the plan. She said more detail would be available for the two-day meeting of the Board in July. At this time, staff is preparing the summaries of the plans and these will be sent to the Board before the July meeting.

The second information item was a report on the impact of the March 1997 flood on state facilities. Members' folders contained a copy of the report presented to the Capital Projects and Bond Oversight Committee at its May meeting. This report identified all leased properties affected by the flood as well as flood-related claims filed by the state through May 7. In the report, Department of Facilities Management Commissioner Armond Russ reviewed the lease process as it relates to facilities which are located in the floodplain. He noted that the process requires the identification of buildings located in the floodplain. The state does not normally lease within the floodplain unless no other properties are available or unless the other available properties are also located in the floodplain. Of the 750 buildings leased by the state, 18 are located in the floodplain.

The next item concerned the 800 MHz Digital Trunked Statewide Radio System. This was a follow-up from the Board's last meeting at which there was a presentation by representatives of the Department of Information Systems (DIS) discussing the efforts to address the state's radio needs, in particular the 800 MHz proposal which was presented during the last planning and budget process. Following that meeting, Chairman Nesler asked staff to contact Secretary McCarty of the Finance and Administration Cabinet to request that the Board be presented with regular updates of the ongoing review of the 800 MHz plan. Staff was advised that regular monthly updates would be received, and the first such report was distributed at today's meeting.

The final information item was a summary of the actions of the recently completed Special Session of the General Assembly. House Bill 1 established the Council on Postsecondary Education to replace the Council on Higher Education (CHE). It also established a new Strategic Committee on Postsecondary Education (SCOPE) and the Kentucky Community and Technical College System. The bill also created a strategic investment and incentive funding program for postsecondary education. The program provides for 6 trust funds, including a Physical Facilities Trust Fund which is to provide sufficient financial assistance for unexpected contingencies in the construction, improvement, renovation, or expansion of the physical facilities of the postsecondary education system. The Council on Postsecondary Education is charged with developing criteria and the process for allocating these funds. Ms. Ingram said this may be an item the Board would wish to follow-up on at a later date as the process is developed. House Bill 1 also specifically stated that all capital projects to be funded through appropriations to one of the individual trust funds would be required to adhere to the capital processes created in KRS Chapters 7A, 45, 45A, and 48. Chapter 7A contains the capital planning statutes.

House Bill 4 made amendments to the 1996-98 budget bill and, in addition to changes related to the postsecondary education reforms, also changed the funding source for the 27 projects that had previously been approved for funding from General Fund Surplus cash funding. These were changed to state bond funds. House Bill 5 provided for some investment and debt management changes that had been proposed by the Office of Financial Management and Economic Analysis (OFMEA). It also made some administrative changes which had been proposed as a part of an EMPOWER Kentucky initiative.

Chairman Nesler said there have been several members named to the Board since the last planning period. He noted that in speaking with the members, many had said they would like more information on what occurs during the 2-day meeting and some background information on the planning process. Therefore, he had asked Ms. Ingram to prepare some information on these topics.

Ms. Ingram's presentation included an overview of the planning process and a background of the first 3 plans prepared by the Board. She said the Capital Planning Advisory Board developed from recommendations dating back as far as 1987. In that year, the Capital Construction and Equipment Purchase Oversight Committee (now the Capital Projects and Bond Oversight Committee) developed a report on the space needs of state government in Franklin County. This report included many recommendations, one of which was that the Kentucky General Assembly should enact legislation requiring each branch of government to develop, maintain, and implement a long-range capital improvements plan. Two years later, another task force established by the General Assembly to examine the state's debt capacity recommended that a Capital Planning Advisory Board of the General Assembly be established to prepare a comprehensive state capital improvements plan and to make funding recommendations to each branch head as to state spending for capital projects. As a result of these recommendations, the 1990 General Assembly enacted Senate Bill 46, codified in KRS Chapter 7A, to establish the Capital Planning Advisory Board.

Ms. Ingram then reviewed the calendar for the planning process. Two dates are established by statute: April 15 is the due date for agencies to submit their plans to the CPAB and November 1 is the date by which the Board is to have completed its statewide plan and submitted it to the heads of the 3 branches of government. The plans as submitted this April 15 were prepared by agencies based on the forms and instructions approved by the Board in November, 1996. The Board also included in its calendar July 1 as the date by which the Council on Higher Education (CHE) is to submit its recommendations to the Board. Ms. Ingram noted that in previous planning processes, CHE received the plans from all universities and created a systemwide plan that consolidated all the projects submitted by the universities. In the last planning process, the Board asked that the Council also prepare a prioritized recommendation, which was a list of 50 of the projects that the universities had included in their plans. Such a prioritized recommendation will also be provided in this planning process. There is no longer a systemwide plan developed by CHE; each university has submitted its own plan to CPAB.

Recommendations of the Kentucky Information Resources Management (KIRM) Commission are also due to CPAB on July 1. Ms. Ingram said that KIRM reviews the information technology (IT) items and systems submitted by all Executive Branch agencies, including the universities. IT items and systems to be included in an agency or university Information Resources Plan (IRP) must be submitted to KIRM through the capital planning process. CPAB and KIRM have worked together to coordinate the IRP and capital planning processes so that IT items and systems can move from the capital plan into the IRP and do not have to be submitted twice.

Finally, the draft Road Plan from the Transportation Cabinet is also presented to the Board on July 1. KRS Chapter 7A excludes road projects from the planning process. The Road Plan is included as one of the appendices to the final statewide plan.

The CPAB traditionally holds a two-day meeting in July of each odd-numbered year to review all university and agency plans. Ms. Ingram said this is an opportunity for the Board to review all of the plans and provides an opportunity to see some cross-cutting issues. Representatives of the agencies and universities present their plans and are available to answer questions from Board members. At the end of this meeting, the Board begins the process of developing recommendations that will be in the statewide plan.

Ms. Ingram also noted that October 15 is the date for agency capital plan amendments to be submitted to the Board. During the last few biennia, the capital budget request instructions have required that projects included in an agency's request must come through the planning process. Any last minute items that need to be submitted in the budget request can be presented to the Board until October 15. November 1 is the statutory date by which the Board must have completed the statewide plan and submitted it to the heads of the 3 branches of government.

In response to a question from Chairman Nesler, Ms. Ingram said it usually takes at least 2 or 3 meetings between the July meeting and November 1 to develop the statewide plan. She said the first of these meetings usually occurs in mid to late August.

Ms. Ingram then described the contents of the agency plans. A narrative overview is to discuss the agency's facilities and its capital needs, as well as programs and activities of the agency. The overview is to relate the projects in the plan to these programs. There is also a requirement for the reporting of the status of current projects - those that were authorized in the 1996-98 budget or that had an authorization which continued into this biennium. Ms. Ingram said some projects go back as far as the 1992 Session. The plan also includes a prioritized list of planned projects consisting of construction, equipment, and information technology items and systems proposed for 1998-2000 or 2000-2002. The projects are assigned a priority order by the agency, and if the plan comes through the cabinet level (as most do now), the cabinet will also assign priorities. The final part of the plan consists of new or expanded leases - both a summary and detail on each individual lease. Leases are submitted for all 3 biennia of the planning period.

Ms. Ingram said most projects submitted in the plans are new construction or renovation of buildings. There are, however, other types of projects involved. Individual projects with a cost of $400,000 or more must be submitted as separate items. Pooled projects, which are multiple projects with a cost of less than $400,000 each, are also included. These are often maintenance pools or pools to address government mandates such as the Americans with Disabilities Act (ADA). Statutory capital construction accounts are included in the capital plan of the Finance and Administration Cabinet. Agency plans may include grant and loan programs which provide financial assistance to non-state entities for items such as local infrastructure projects or school construction. Projects funded through the Judicial Use Allowance payments of over $200,000 annually are also required to be submitted.

Ms. Ingram said that relative to the submission of information technology items and systems, by statute KIRM is to define what constitutes a "system." She noted there has been recent discussion that the definition may need to be revised; this may be a topic of future meetings.

Ms. Ingram said there are several components included in the project submissions. The project must have a descriptive title to identify it and its location, by county, is to be specified. The "Project Type" by category (such as major maintenance or major renovation) and a narrative "Project Description" are required for each project, as is the "Need Addressed" identified by category (such as life/safety or protect investment in plant) and explained in a "Project Purpose/Operating Budget Relationship" narrative. There are specific need addressed categories for information technology items. The agency is to relate the proposed project to its programs and activities in the operating budget relationship item.

There is also a section for the history of the project, specifically whether the project has been submitted in a previous capital plan or budget request. Some projects have been submitted in every planning process since the Capital Planning

Advisory Board was formed. For each project, there is budget information in which amounts by fund sources and cost elements, such as land acquisition and design, are identified. This information is required for the construction projects and equipment, but not leases. Project features, such as a timetable, square footage by use, and relationship to existing space, are also to be provided. Impact on operating budget is required in order to determine the recurring costs to the state if the project is completed. Ms. Ingram also described the various types of fund sources available for capital projects.

Next, Ms. Ingram reviewed the tentative agenda for the July 17-18 meeting at which the Board will review all of the agency and university plans. It includes a statewide overview of the plans, an update on the state's bonded indebtedness, a report on the long range plan for housing state agencies in the Frankfort area, agency and university presentations, KIRM recommendations, and recommendations from the Council on Higher Education.

Mr. True asked if there will be an opportunity at the meeting to discuss the effects of the recent special session on equipment, facilities, and technology. Mr. Hintze replied that House Bill 1 is aimed at the next biennium and the next planning cycle. In response to a further question from Mr. True, Mr. Hintze said the Trust Funds created by House Bill 1 create a new statutory overlay onto an ongoing process. They don't match up in the plans as submitted but will when the budget requests are submitted in late-October/early November. And the needs and priorities ought to be surfacing in the plans that will be coming before the Board this summer.

Ms. Ingram noted that equipment is only required to be submitted for the 1998-2000 biennium, which is a change made by the Board in its instructions approved in November. This will result in fewer equipment projects being submitted, and came about due to rapidly changing technology.

Ms. Ingram said Board materials at the meeting would include the staff overviews of the agency submissions accompanied by a report on the status of current biennium projects, the priority listing of planned projects, and a listing of new or expanded leases.

She then listed some of the inputs that go into developing the statewide capital improvements plan. They include the cabinet or agency plans, recommendations from KIRM and CHE, and the Road Plan from the Transportation Cabinet. The Board will also use other information such as the reports on the state's bonded indebtedness, the long-range plan for the Frankfort area, and the amount and condition of state owned and leased property. Members of the Board may also identify issues and concerns based on their own expertise.

Ms. Ingram then gave a brief overview of the 3 previous plans developed by CPAB. The 1990-1996 Statewide Plan adopted Space Management Goals for statewide capital planning, and recommended that these goals be adopted by the 1992 General Assembly, which they were. It also recommended construction of new state-owned office facilities in Frankfort and Lexington. Finally, the plan identified categories of projects on which it believed the Commonwealth should place special emphasis.

The 1992-1998 Statewide Capital Improvements Plan contained two lists of project recommendations, neither was ranked in priority order. List A contained 21 projects identified by the Board as having "Most Exceptional Merit" and List B contained 18 projects identified as being "Also Worthy of Consideration" for funding. The 1992-98 Plan also included 19 issue-related recommendations.

The 1994-2000 Statewide Capital Improvements Plan contained a prioritized list of 97 and a non-prioritized list of 60 projects which the Board recommended to be financed from state funds. The plan also recommended funding of all proposed projects, with some caveats, which were proposed to be financed from "other than" state funds; 4 such projects were specifically recommended. Finally, there were 6 issue-related recommendations in the 1994-2000 plan.

Representative Brandstetter commented that the increase in the Budget Reserve Trust Fund recommended in the 1994-2000 Statewide Plan was enacted by the 1995 Special Session of the General Assembly. He said the efforts of the Board work their way through channels and have some effect on what happens in state government. He stated that although this is a relatively new board, it has had an impact within the Governor's Office and the General Assembly.

Ms. Ingram said the next item on the agenda was a review of selected processes related to capital projects. In talking with some Board members, there was interest expressed in having more background about some of the items with which the Board will be dealing that are not the "normal" capital projects.

First on this section of the agenda was CPAB member Paul Isaacs, Director of the Administrative Office of the Courts (AOC), to discuss court projects. Mr. Isaacs was accompanied by Nick Schwendeman, General Manager of the Facilities Unit of AOC. Mr. Isaacs said the Facilities Unit is responsible for overseeing the construction, renovation, and general upkeep of all court facilities in the state. He said in the last session the General Assembly appropriated $196 million in new projects, which is more than has been authorized in total in the past.

He stated that the process of approving court facilities is different because it is a partnership between state and local units of government. In general, the facilities are built and renovated by local units of government through a process where they do all of the preliminary work including hiring of architects and selling of bonds, with oversight by the Court Facilities Standards Committee (CFSC). After the facility is completed, AOC pays the local government an operating and use allowance. The use allowance is based on a statutory requirement that AOC pay that portion of the actual cost of retiring the bonds related to the actual space used by the courts. After the bonds are retired, or if no bonds are sold, the maximum use allowance is 4%.

Mr. Isaacs said even though these projects differ in the way they are financed, they are still part of the planning process and AOC does submit a six-year plan. The process starts in February of odd-numbered years by sending a letter to all local units of government asking them to submit information on any proposed court facilities that need to be presented in the Judicial Branch Capital Plan. This information includes a letter of intent from the local government of the desire to construct or renovate space, an explanation of the need and the relationship to existing space, and a brief narrative of the project scope and the estimated project schedule. Also provided is the written support of local court officials, project gross and net square footage and assignment of space by floor, general project cost breakdown, and the general financing package with projected sources and uses of funds. The Facilities Unit of AOC reviews, and if necessary, revises the information submitted for inclusion in the Capital Plan.

Mr. Isaacs said in the last regular session, the General Assembly wanted to make sure the facilities it authorized would meet the needs of today and of the future. Therefore language in the Budget Bill required that any authorized new facility or renovation must meet the standards of the National Center for State Courts (NCSC). He said the NCSC is a non-profit corporation that is supported by all 50 state court systems and has a great deal of expertise in the building and renovation of facilities. The CFSC, which must approve all of these projects and also must give final approval before any use allowance can be paid by the court system, independently adopted the requirement that the NCSC review be performed. The CFSC consists of the Chief Justice or his designee; one judge each of the Court of Appeals, the Circuit Court, and the District Court appointed by the Supreme Court; president of the Circuit Clerks' Association; chairman of the Judiciary-Civil Committees of the General Assembly; secretary of the Finance and Administration Cabinet; and a county judge/executive appointed by the Governor. Representative Mike Bowling is currently chairman of the CFSC.

Since the CFSC has said that all court facilities must meet the standards of the NCSC, the Facilities Unit has revised the statewide standards to reflect the NCSC standards. One of the problems that AOC is facing is the lengthy period between planning and construction which is resulting in cost overruns because the appropriations are based on the early cost estimates. This had not been such a problem with the previous smaller projects. The CFSC has adopted a policy that it will not give preliminary approval to any project that is over the authorized limit at the estimate stage; it will not be considered until there are actual bids. If the bids show that the project cannot proceed within the authorized limit, but if the increase does not exceed 15% (the factor used for Executive Branch projects) and if the use allowance can be met within AOC's authorized budget for use allowance payments, it is taken before the Capital Projects and Bond Oversight Committee (CPBOC) for approval.

AOC is now building in a 15% contingency at the beginning and is also reviewing the early cost estimates more carefully before they are submitted to the General Assembly.

Chairman Nesler asked what group provides the cost estimates. Mr. Isaacs replied that they are given to AOC by the local unit of government, which hires an architectural firm and financial consulting firm to help develop the plans and the cost estimates. In response to a further question from Chairman Nesler, Mr. Isaacs said AOC is concerned and will carefully watch any possibility of these firms padding estimates to provide more room in the approved budget. This could happen in the future, but currently the problem is with estimates which are too low. He added that if a project does come in over budget, AOC does not simply reject it but tries to make suggestions for reducing the costs.

Chairman Nesler asked how many local governments respond to the requests for proposed facilities. Mr. Schwendeman said in this period, there were approximately 20 responses. Mr. Isaacs said there are 31 projects currently active. He said he expects that as more projects are completed, the number of requests will begin to decrease.

Representative Brandstetter said in the Local Government Committee's yearly review of block-grant projects, the same problems with cost estimates develop. He said in these cases it is obvious that someone did not do enough research in submitting the proper information. He said he would encourage state agencies to develop enough expertise in house to be able to see where there might be problems because local governments often do not have the resources to provide totally accurate information. Mr. Isaacs said this is a goal of AOC and that Mr. Schwendeman and his staff have spent a great deal of time with the local governments trying to address this issue

In response to a further question from Representative Brandstetter, Mr. Isaacs said that it would be very valuable to local units of government to have some planning money available, possibly administered by agencies such as Area Development Districts. He said proposals are coming from counties who have money for planning available up front, but there are needs in counties that do not have such funds available, even though they are eventually reimbursed for those up-front expenses. It would be a great help to have assistance for the local governments at the beginning. He said all plans are being required to have the participation of the local court officials, because architects may not have the expertise to understand the unique functions of these offices. The NCSC also requires this.

Ms. Clary said a lot of the changes in the process have come as a result of discussions by this Board. She noted the more detailed examination of the plans by AOC and the General Assembly's requirement for NCSC involvement in the design process. As there are for other agencies, the courts now have uniform standards, through NCSC, for space needs depending on the type of court but this does involve a cost. Mr. Isaacs said AOC has suggested that as each county hires an architectural firm, they meet with NCSC and go through their programmatic process before they start planning. Some counties, such as Fayette, have hired the NCSC to do a program document for the court facilities and this document can be given to the architect for developing the plans.

Mr. Hintze asked if AOC foresees the need for statutory changes to address the issues that developed at the end of the process last time, for example, establishing a contingency account similar to the one for the executive branch in KRS 45.760, moving the NCSC review back to the request process, and requiring standard information on local financing plans. Mr. Isaacs said they are looking at these issues. Mr. True said he would like to ask staff to look at options CPAB would have to make a recommendation with regard to providing funds for counties to pay for the pre-planning process. Mr. Isaacs reiterated that it would be a great benefit to have some funds available to assist some of the counties.

Ms. Ingram said the next presentations would address the grant and loan programs that CPAB reviews in the agency plans. She introduced Lori Flanery, Commissioner of the Department of Financial Incentives, and David Bratcher, Director of the Grants Program Division, to discuss Economic Development Bonds.

Mr. Bratcher said since 1982 approximately $380 million of economic development bonds have been issued. Until enacted by the 1988 General Assembly, there was no legislation governing these bonds. He said the General Assembly approves the amount of economic development bonds (EDB) that may be issued by the Commonwealth through the State Property and Buildings Commission as well as an amount for debt service in the operating budget of the Economic Development Cabinet. Every 2 years, the Cabinet requests approval for debt service funds for new bonds they are proposing as well as for those bonds that have already been issued. He explained that there are 2 different types of bonds: the EDB project pool for projects recommended during an interim by the Economic Development Cabinet to assist companies who are locating or expanding in the Commonwealth and Community Development Bonds (CDB) for projects that are identified in specific line items in the budget. The CDBs allow funding for state-owned projects which, under KRS 154, are prohibited from being funded through the EDB project pool.

Mr. Bratcher said for the pooled projects, procedures codified in KRS 154 are followed. Secretary Strong of the Economic Development Cabinet makes a recommendation for the use of the funds to Secretary McCarty of the Finance and Administration Cabinet. The project is then taken before the Kentucky Economic Development Finance Authority, the LRC Capital Projects and Bond Oversight Committee, and the State Property and Buildings Commission. No ED bonds have been issued since 1995.

In response to questions from Representative Brandstetter, Mr. Bratcher said EDB funding represents a small percentage of the total cost of an economic development project.

The next presentation was made by Dr. Robert Tarvin, Executive Director of the School Facilities Construction Commission. Dr. Tarvin said the SFCC was created the 1986 General Assembly. At that time, SFCC assumed the debt that had been issued by a former agency called the Kentucky School Building Authority (KSBA). The KSBA assumed the total debt for most of its projects and, as such, was limited in terms of being able to give a broad reach across the state to the districts that might benefit from it. The present legislation is formula driven and therefore practically all districts in the state have an opportunity to participate. The SFCC assists local school districts to meet their school building needs. It is administratively attached to the Finance and Administration Cabinet. He said the Commission is empowered to assist local school districts in the issuance and repayment of bonds to finance construction of new facilities or major renovation of existing facilities. Dr. Tarvin said the SFCC is a debt-service driven organization as opposed to bond-driven, but they do operate within the bond authority parameter.

Dr. Tarvin said SFCC is currently servicing debt on approximately $1.4 billion of buildings, representing 500 projects. Dr. Tarvin said 146 of the 172 school districts have projects in this group. In response to a question from Representative Brandstetter, Dr. Tarvin said the $1.4 billion is the initial face value of the bonds. Dr. Tarvin then gave a brief report on the trends that these issues have been following. He said the total debt of the Commission peaked in the 1990 biennium and has been decreasing since that point, but total debt for the schools is continuing upward. He said that the Facilities Support Program of Kentucky (FSPK) which is part of the 1990 Kentucky Education Reform Act provides funds which go directly to the local districts from the Department of Education for bonded indebtedness. FSPK funds are equalized with a 5 cent local tax assessment. These funds have been increasing, while the SFCC appropriations have been decreasing. From 1986-1990, funding through SFCC was needs-driven and the funds were allocated to districts based on what SFCC perceived to be the facility needs of a district. FSPK dollars are tied to a per-pupil ratio of assessed evaluation so they are pupil-tax-driven. Thus, there is now a two-pronged approach, which provides a balance.

Dr. Tarvin then gave a review on the funding process for local projects. He said the SFCC looks at the District Needs Assessment, which is a facility plan done in the Department of Education and approved by the State Board of Education. The formula to determine how much a district is eligible for looks at district needs and available local resources compared to the total needs of the state. Offers made to districts are available for 4 years. Once the amount is determined, local district projects are approved by the Department of Education, then SFCC is involved in selling the bonds. Currently on about 98% of the issues, SFCC pays for only a percentage of the debt service, since the FSPK money is classified as local money. (In the early days, SFCC often paid for 100% of the debt service.) Dr. Tarvin said the SFCC also does good deal of refunding, as rates improve, which has resulted in considerable savings.

For the current biennium, SFCC has a debt service appropriation of $4.3 million for new bonds and a bond authorization of $75 million. In response to a question from Representative Brandstetter about the amount of debt that can be issued, Dr. Tarvin said, taking into account the local share, there has been about $170-200 million of new school construction per biennium.

Ms. Ingram said the last presentation was an overview of the Kentucky Infrastructure Authority (KIA) by Marilyn Eaton-Thomas, Secretary/Treasurer of KIA. Ms. Eaton-Thomas said KIA was created in 1988 with the purpose of providing affordable financing to encourage local governments to undertake infrastructure projects because these projects are important to the state as a whole for economic development and environmental purposes. There are several funds for local governments to use, two of which date back to 1988. The first is the Wastewater Revolving Fund for wastewater treatment and collection projects. The federal government, through the Environmental Protection Agency (EPA), provides grant funds to the states for this purpose. The state must match these dollars on a 20 cent per dollar basis. To date, 86 projects have been funded for a total of $208 million. This is only the contribution from the federal grant and state match, and does not include any other funds such as the Community Development Block Grant Program. The second program dating back to 1988 is the Infrastructure Revolving Loan Fund. This fund is financed entirely through bond authority and appropriated debt service. This program was established to encourage job development and is provided to local governments who need to make infrastructure improvements to attract new jobs. To date, this fund has been used for 69 projects totaling $81 million.

Ms. Eaton-Thomas said a new fund was developed in 1990 - the Solid Waste Loan Fund and Grant Program. To date, there have been 15 loans totaling $4.7 million and 65 grants totaling $3.8 million. The grant money was taken very quickly and ended in 1993. A new fund called the Drinking Water Loan Fund, was signed into law by the President in 1996. This will be a matching fund program similar to the Wastewater Revolving Fund which will involve the EPA and Kentucky's Division of Water. While progress has been made in infrastructure financing, Ms. Eaton-Thomas said the need is still overwhelming and the Governor has an initiative to get good drinking water to all Kentuckians by 2020. A recent study showed that Kentucky has a higher percentage of population without access to good drinking water than any other state. It said an estimated 80,000 Kentuckians are without clean drinking water. Additionally, the Division of Water has about $1.0 billion of wastewater projects on its priority list. Kentucky is still in the process of creating infrastructure; maintenance of that infrastructure will follow.

Ms. Eaton-Thomas said KIA will issue all of the state bonds authorized in the 1996-98 budget, but not all of the agency bonds. The agency authorization was given so that needed projects would not go unfunded; however, they are not being needed as soon as anticipated because KIA has moved approval of the Fund A projects to a later point in the process (after bids have been received) due to problems which had arisen, such as cost overruns.

The next item of business was a review of multiple projects pools. First, Ms. Ingram gave a brief overview of maintenance/minor project pools, which are usually funded from investment income. Most cabinets have minor projects pools; one exception is the exception of the Natural Resources Cabinet. Ms. Ingram then described the pools that have been appropriated in recent biennia for higher education projects. Pools have been authorized in the CHE budget for distribution to the universities, rather than individual projects being authorized in the university budgets. In 1992-94 and 1994-96, there were pools to address life/safety projects and in the last 3 biennia there have also been Restricted Funds Bond Pools for housing and dining projects. The bond pools require that the university have restricted funds available to pay the debt service.

Ms. Ingram said there are 2 statutory pools: the Capital Construction and Equipment Purchase Contingency Account and the Emergency Repair, Maintenance, and Replacement Account. The Board recommended significant funding for the Contingency Account and the Emergency Account in the last capital plan and each received an appropriation of $8 million for the current biennium. Ms. Ingram indicated there are also state funded pools to address government mandates, such as pools for Federally-Mandated Phaseout of Chlorofluorocarbons and for Compliance with the Americans with Disabilities Act. The final pool was the Statewide Deferred Maintenance Pool which was first appropriated in the 1996-98 budget. These funds are to be used on a priority basis for all state agencies and universities. Ms. Ingram said the first allocation from this pool was made in December 1996 and in reporting the allocation to CPBOC, the Finance and Administration Cabinet noted that the funds from this pool will be used for critical maintenance and replacement needs for state agencies lacking appropriate resources of their own or to supplement those maintenance pools that have already depleted their annual appropriations. The appropriation for this biennium is $3.5 million.

In preparation for development of the 1996-2002 statewide capital improvements plan, Chairman Nesler then asked Board members for their opinions on whether to continue to try to prioritize projects as the Board did in the last planning process or to use another method. Mr. True said he favored the prioritized list because he felt it was the Board's obligation to develop some type of prioritized listing. He said this was important to assist the Legislature and the Executive Branch in developing the budget.

Mr. Hintze said some type of prioritized listing is important, although there may not need to be such an extensive list. He said he was concerned that the Board placed an inordinate and excessive burden on staff to compile this list, and the Board did not afford itself the opportunity, due to time constraints, to carefully examine the list. He said he did want to retain a strong sense of priorities, but maybe not just duplicate what was done last time which may have delegated too much to the staff.

Ms. Clary said in doing the priorities it forces the agencies to say what is important to them. She found it unsettling that last time, there were some agencies who really could not say what their priorities were. Ms. Clary said she was concerned that if the Board goes back to the original approach of just recommending categories such as "recommended" or "not recommended," the agencies won't do what they need to be doing. Therefore, she does not want to see the Board move too far away from a prioritized list.

Chairman Nesler said he agreed that the Board should stay with prioritizing projects. He said it would probably not be too difficult to agree on the top priority and maybe a few others below that, but when you get a little farther down in the list it is harder to differentiate between the lower priority projects. He said he thought a small group of projects identified as the most important might be effective, then handle the other projects in some other way. He also stated that the Board should ask more questions of the agencies to get a clear understanding of their top priorities at the July meeting.

In response to a question from Mr. True, Ms. Ingram said each agency must provide a prioritized list to the Board as part of its capital plan. Ms. Clary said the agencies do prioritize their projects, but in the July presentations they often indicate the projects are all of equal importance, so it becomes difficult to distinguish between their priorities.

Mr. True said he felt the last plan developed at the Board was used by the Governor and Legislature in the last budget, and he did not wish to see the Board lose that influence. He said the process may need to be refined. Perhaps instead of listing priorities 1 through 15, the Board should identify a group of projects that should merit very high consideration. He also said he thought the Board should re-examine some of its prior recommendations and ask the agencies what they have done and what effect that had on the agency's plan. For example, he said he hoped a very specific plan would be forthcoming about housing state agencies in Frankfort.

Senator Robinson said he did not see a conflict between the Chairman's proposal and Mr. True's proposal. Chairman Nesler said he thought they were working in the same direction and that both wanted to improve the process as much as possible.

Representative Brandstetter said he would like to see the Board maintain a prioritized list to help take the politics out of the process. He said since the Board takes 2 years to develop this list, the Governor should follow the priorities the Board recommends and if he did not, it could become an election issue because it would show the public that certain people in elected positions are not following the recommendations of boards such as CPAB. He said this is the value of the capital plan as we move from a highly political set of priorities to being more rationally driven.

Senator Nunnelley suggested a "grading procedure" that would group projects based on their merit, with 10-12 projects in each group (e.g., A, B, C).

Chairman Nesler said he appreciated the Board and the efforts of its members. He said he wished all Boards and Committees were as dedicated to their performance.

Ms. Ingram said the Board has been holding its July meeting at Kentucky State University. However, this year the Board may want to hold the meeting in the Annex in a room that would support teleconferencing capabilities. Mr. True said he favored the type of room where the Board is arranged in such a way to make communication easier between the Board members and presenters. Chairman Nesler asked Ms. Ingram and Vice-Chairman Hintze to work out the details of the meeting location.

There being no further business before the Board, the meeting adjourned at 11:45.